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FEDERAL COMMUNICATIONS COMMISSION
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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Amendments to Uniform System of Accounts for Interconnection	)	CC Docket No. 97-212
	)	

COMMENTS OF BELL ATLANTIC

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COMMENTS OF BELL ATLANTIC[1]

I. Introduction and Summary

The Commission should modify its proposal to create new accounts for interconnection and unbundled network elements in two respects.[2] First, the Commission should not require a whole new round of cost studies to determine how costs should be apportioned among various categories of accounts and subaccounts. The states, in exercising their statutory authority to review rates for interconnection and network elements, are required to base their determinations on cost. Therefore, states for the most part have already undertaken, or are now undertaking, any needed cost analyses. The cost studies that the local exchange carriers submitted to the states, while fully adequate for state ratemaking purposes, were not designed to track the cost categories of Part 32, the Uniform System of Accounts. In order to meet the

[1] The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

[2] ***Notice of Proposed Rulemaking***, FCC 97-355 (rel. Oct. 7, 1997) ("Notice").

Commission's proposed requirement, therefore, new studies would need to be performed to track Part 32 at the cost of significant time and expense -- at a minimum of well over $1 million in the case of Bell Atlantic alone. Moreover, such redundant and burdensome studies would further no valid regulatory goal. Instead, by recording the costs of interconnection and unbundled network elements equal to the revenues, as the Commission itself proposed in this proceeding, the two will offset each other and can have no effect on rates. So long as aggregate costs and revenues are equal to one another, there simply is no reason to require added cost studies to apportion them between accounts.

Second, the Commission should not establish new revenue and cost accounts for interconnection, unbundled elements, or resale. The Uniform System of Accounts is a functional rather than service-specific system, and the functions needed to provide interconnection, network elements, and resale are already included in existing accounts. Subcategories within existing accounts will allow the Commission to request the data needed to monitor the progress of interconnection without establishing entirely new accounts. There is no reason to undermine the basic stability of the Uniform System of Accounts by creating new accounts each time carriers are required to offer new pricing options or to unbundle the components of existing services.

II. Additional Cost Studies Should Not Be Required.

The Commission proposes to require incumbent local exchange carriers to use existing cost studies for interconnection and for each unbundled network element or create new studies in order to apportion the costs of these items between accounts and subaccounts on their books.[3] Under the Act, however, states are given the exclusive right to determine the prices for interconnection and unbundled network elements. Those determinations "shall be based on the cost ... of providing the interconnection or network element."[4] In the course of adjudicating rates at the state level, either by reviewing interconnection agreements or through arbitration, the states either obtain from the parties or prepare themselves cost studies supporting each rate. In some instances, states have chosen to modify the cost studies and have adopted rates reflecting their own conclusions of the relevant costs.[5] Therefore, the cost studies that the carrier submits may not represent the costs on which the states set network element and interconnection prices.

Even where the carriers' studies are accepted, however, they would not meet the Commission's requirements. The studies were conducted in order to meet state requirements to justify rate levels for interconnection and were fully adequate for that purpose. Those studies, however, were not designed to track the specific Part 32, Uniform System of Accounts, categories (accounts and subaccounts), because those categories are not relevant to state rate determinations. Therefore, each study would need to be performed again for the sole purpose of putting them into the Part 32 format.

This would force Bell Atlantic to conduct at least 75 separate special cost studies for all of the components of interconnection arrangements it offers and for each unbundled network element it currently offers. Each such study would take a minimum of 8 person-weeks

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[3] ***Id.*** at ¶ 14.

[4] 47 U.S.C. § 252(d)(1)(A).

[5] Bell Atlantic does not necessarily agree that all state-adopted rates for interconnection or network elements will fully recover their forward-looking costs. However, the method that any state uses to determine the costs and rates has no impact on interstate rates where the costs and revenues are recorded so that they offset each other, as the Commission proposes.

of work to cover all Bell Atlantic jurisdictions. The cost of performing the 75 studies would be at least $1.2 million. Such an expensive exercise is inconsistent with the deregulatory thrust of the 1996 Act.[6]

Moreover, the cost studies would serve no valid regulatory purpose. If the Commission adopts its proposal that the total amount of recorded costs should be based upon the revenues received,[7] as it should, the costs and revenues would offset each other and have no impact on rates for other regulated services.[8] Nothing would be gained by developing costs for individual network elements when, in the aggregate, the costs and revenues are equal and other ratepayers are unaffected.

III. New Accounts Are Unnecessary and Inconsistent With Part 32.

The Commission proposes to establish several new accounts to track revenues received from and amounts paid for interconnection, unbundled network elements, and transport and termination[9] and the expenses of purchasing services for resale.[10] It also proposes subsidiary categories to track the revenues and expenses associated with individual network elements and

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[6] ***See, e.g.***, 47 U.S.C. §§ 160 and 161, which require the Commission to eliminate unnecessary regulation.

[7] ***See*** Notice at ¶ 14.

[8] In any event, costs are generally no longer relevant in setting rates for price cap carriers.

[9] Notice at ¶¶ 8 and 11.

[10] ***Id.*** at ¶ 13.

interconnection services.[11] Establishing separate accounts for service, as opposed to functional, categories is inconsistent with Part 32 of the Commission's Rules and should not be required.[12]

As the Commission acknowledges in the Notice,[13] its Rules specify that the Uniform System of Accounts "should not reflect an *a priori* allocation of revenues, investments or expenses to products or services, jurisdictions or organizational structures."[14] Instead, "[t]hese accounts ... are intended to reflect a functional and technological view of the telecommunications industry"[15] and the "account structure has been designed to remain stable as reporting requirements change."[16] The rules further recognize that "certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions."[17]

It would be inconsistent with these basic tenets of the Commission's accounting system, as codified in its own Rules, to require new accounts when, as here, the affected carriers are simply offering components of existing services or new pricing options for existing services. Such a requirement would eliminate the very accounting stability that the Commission intended Part 32 to provide. Instead, the accounting system would become volatile, with accounts being

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[11] *Id.* at ¶¶ 9, 11, and 13.

[12] In Attachment 1, Bell Atlantic suggests changes to the definitions of the relevant existing accounts in the Commission's Rules to incorporate interconnection, unbundled network elements, and resale.

[13] Notice at ¶ 4.

[14] 47 C.F.R. § 32.2(c).

[15] 47 C.F.R. § 32.2(e).

[16] 47 C.F.R. § 32.2(f).

[17] 47 C.F.R. § 32.2(b).

added or subtracted each time Congress or the Commission requires carriers to offer new forms of unbundling or imposes new pricing requirements for existing services for certain customers. In each case, the network functions being provided are the same and should be subject to the same accounting treatment.

Moreover, new accounts are not needed to give the Commission information on the development of interconnection. Use of existing functional accounts, together with appropriate subsidiary records, will give the Commission access to the same data it would obtain through separate accounting and will enable it to track the development of interconnection without undermining the purposes of the Uniform System of Accounts.

A. **Interconnection and Access to Unbundled Network Elements**

The Commission proposes to establish a new revenue Account 5071, and a new expense Account 6551, both called "Interconnection and access to unbundled network elements," to record revenues received from provision of unbundled network elements and the cost of purchasing such elements, respectively.[18] Bell Atlantic, together with most if not all affected incumbent local exchange carriers, already records network element revenues into Account 5240, Rent revenue, because the furnishing of such elements is analogous to the leasing of individual elements to other carriers. Bell Atlantic also maintains subsidiary records that track the revenues

[18] Notice at ¶ 8.

from most individual elements.[19] Therefore, the Commission can obtain both aggregate data and information on individual network elements without establishing separate revenue accounts.

Similarly, there is no need for a new expense account. Instead, purchasers should report expenses in existing Account 6540, Access expense.

B. **Transport and Termination**

The Commission also proposes new revenue (Account 5072) and expense (Account 6552) accounts to record revenues received from other carriers and payments to other carriers under the reciprocal compensation provisions of Section 251(b)(5) of the Act. It also proposes to require subsidiary categories to record separately the revenues and expenses associated with transport and termination.[20] Reciprocal compensation obligations apply to traffic that originates and terminates within a local exchange area.[21] Each carrier's portion of a local service that is subject to reciprocal compensation consists of an existing offering that, in the case

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[19] The Commission has exempted from separate tracking minor items that are not designated as a retirement unit. 47 C.F.R. § 32.2000(d)(2)(ii). Likewise, it should not require separate tracking of low-cost network elements with insignificant individual revenues. For example, the Commission identifies "network interface devices" as one of the elements that should be separately tracked in subsidiary records. Notice at ¶ 9. Such devices are minor plant items that are not designated as a retirement unit and are not recovered if the service is disconnected. There is, therefore, no justification for requiring separate tracking of revenues from these devices.

[20] Notice at ¶ 11.

[21] ***Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, First Report and Order***, 11 FCC Rcd 15499, ¶ 1034 (1996).

of incumbent local exchange carriers, has long been offered in state tariffs.[22] Each end user subscribes to the service of the carrier that serves his or her premises. A local call between a customer of an incumbent exchange carrier and one served by a competing carrier would traverse the facilities used to provide the local exchange services of both carriers.

Instead of establishing new accounts, the revenues associated with reciprocal compensation for intrastate telecommunications should be recorded into existing Account 5084 - State access. This is the account that some incumbent local exchange carriers have used to record transport and termination revenues received from independents.[23] There is no functional difference between traffic from a competing exchange carrier and from an independent that is transported and terminated on the incumbent's network. There is, therefore, no reason for the Commission to require different accounting for such revenues. In addition, under reciprocal compensation agreements, there is no differentiation between payments associated with local switching, transport, and termination of a local call. There is, therefore, no practical benefit to be derived from requiring subsidiary records to isolate the revenues associated with each.

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[22] Because only local services are subject to reciprocal compensation, it is often necessary first to calculate the percentage of interstate use of an interconnection circuit, then to apply a percent local use factor to determine the portion that is subject to reciprocal compensation. Circuits used for Internet access are not local services and are not subject to reciprocal compensation, even though the Commission requires them to be priced at local rates.

[23] Other incumbent local exchange carriers use Account 5240, Rent revenue, to record transport and termination revenues received from independents. Bell Atlantic would not object to using this account for reciprocal compensation revenues and, if the Commission so orders, is prepared to change its accounting practices accordingly.

For the same reasons, there is no reason to establish a new account for transport and termination expenses, or subsidiary records. Instead, payments for transport and termination services should be recorded into existing Account 6540 - Access expense.[24]

C. **Resale**

While not establishing a new revenue account, the Commission proposes to create a new expense Account 6553, Purchased telecommunications service expense, to record amounts paid to purchase services for resale.[25] It also proposes subsidiary categories to existing revenue accounts to report revenues from services purchased for resale.[26] The Commission should adopt its proposal not to require new revenue accounts for resale, but it should not establish a new expense account. All interstate and most intrastate services have long been available for resale without any special accounting. The only difference here is that the price of services provided to carriers for resale has been reduced, as required under Section 251(c)(4) of the Act. The services are functionally and technically identical to retail services; only the price differs. Therefore,

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[24] The Commission also asks whether the proposed accounts will accommodate a variety of different compensation arrangements, such as bill and keep. Notice at ¶ 12. As discussed above, Part 32 is a functional accounting system, and it should not be modified to accommodate every form of mutual compensation arrangement that might be devised. So long as the applicable revenues and expenses are properly recorded, the particular method of compensation to other carriers will have no effect on ratepayers, and no special accounting is needed. In the case of bill and keep, the only revenues that a carrier receives is from its end user, so there would be no intercarrier payments to be recorded in subsidiary categories.

[25] Notice at ¶ 13. Although Bell Atlantic will primarily provide services to others for resale, there may be circumstances in which Bell Atlantic will lease services from other carriers to serve customers in areas which Bell Atlantic does not serve or to supplement its own facilities in the event of temporary shortages.

[26] ***Id.***

existing expense Account 6540 -- Access expense -- can be used to track expenses of services purchased for resale.

D. **Infrastructure Sharing**

The Commission appropriately tentatively finds that additional accounts are unnecessary to track the sharing of infrastructure pursuant to Section 259 of the Act with carriers that lack economies of scale and scope.[27] Similar forms of interconnection have been in effect for decades, as the Commission points out,[28] with the costs and revenues booked to the appropriate functional Part 32 accounts. Therefore, no further accounting requirements are needed to implement Section 259.

The Commission asks what infrastructure sharing arrangements are currently in effect.[29] Bell Atlantic has recently entered into an arrangement to share ISDN technology with several independent local exchange carriers in several states. The independents will connect to Bell Atlantic's ISDN-equipped central offices through DS1 facilities. These services are being accounted in the same manner as end-user ISDN services, because they are functionally equivalent to such services.

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[27] ***Id.*** at ¶ 16.

[28] ***Id.***

[29] ***Id.***

IV. Any Reporting Requirements Should Be the Minimum Needed To Allow the Commission to Obtain Tracking Data.

The Commission asks whether the accounting requirements adopted in this proceeding should apply only to Class A incumbent local exchange carriers or to other telecommunications providers that meet the Class A revenue threshold.[30] Consistent with the deregulatory thrust of the Telecommunications Act of 1996, the Commission should minimize the regulatory burden on all carriers, incumbents as well as new entrants. To that end, it should avoid placing any new record-keeping and reporting requirements on any carriers. It must recognize, however, that obtaining reports from just one segment of the industry -- incumbent local exchange carriers -- will provide only part of the interconnection picture. If the Commission were to request data for tracking purposes, it should obtain those data from new entrants as well as incumbents in order to obtain a full view of the extent of interconnection and local competitive entry.

[30] ***Id.*** at ¶ 18.

V. Conclusion

Accordingly, the Commission should not require local exchange carriers to perform special cost studies in an attempt to attribute unbundled network costs to specific Part 32 accounts, because such expensive and burdensome efforts would not affect rates for other regulated services and, therefore, would have no practical regulatory benefit. It should equate network element costs to rates and use existing accounts for the recording of interconnection, unbundled network elements, and resale revenues and expenses instead of requiring new accounts.

Respectfully Submitted,

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ATTACHMENT 1

Proposed Rule Changes

Bell Atlantic proposes the following changes to the definitions of three existing accounts to include interconnection, unbundled network element, and resale revenues and expenses, as applicable. Suggested changes are shown in strikeout/underline format.

Account 5084, State access revenues

a) This account shall include all ~~state tariffed~~ charges subject to state regulation that are assessed by local exchange carriers upon ~~interexchange~~ other carriers and end users for access to the local exchange network for intrastate telecommunications.

Account 5240, Rent revenue

a) This account shall include revenues (including taxes when borne by the lessee) derived from the rental or subrental to others of telecommunications services or facilities rendered by the company. It includes revenue from the rent of such items as interconnection, access to unbundled network elements, space in conduit, pole line space for attachments, and any allowance for return on property used in joint operations and shared facilities agreements.

Account 6540, Access expense

a) This account shall include amounts paid by the interexchange carriers or other exchange carriers to another exchange carrier for the provision of carrier's carrier access, ~~.~~ interconnection, access to unbundled network elements, transport and termination of local exchange traffic, and resale.

CERTIFICATE OF SERVICE

I hereby certify that on this 10th day of December, 1997 a copy of the foregoing "Comments of Bell Atlantic" was sent by first class mail, postage prepaid, to the parties on the attached list.

Tracey M. DeVaux

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* By hand delivery.

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